RECORD
AND
BRIEFS

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AMICUS CURIAE BRIEF OF THE ASSOCIATION OF MEDICAL DEVICE REPROCESSORS IN SUPPORT OF IMPRESSION PRODUCTS, INC.

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QUESTIONS PRESENTED

The "patent exhaustion doctrine"—also known as the "first sale doctrine"—holds that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). This case presents two questions of great practical significance regarding the scope of this doctrine on which the *sua sponte en banc* Federal Circuit divided below:

1. Whether a "conditional sale" that transfers title to the patented item while providing post-sale restrictions on the article's use or resale circumvents the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions under penalty of patent infringement.

2. Whether a sale of a patented article outside of the United States—authorized by the U.S. patentee— exhausts the U.S. patent rights in that article, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) that the common law rule against restraints on alienation "makes no geographical distinctions."

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INTEREST OF THE *AMICUS CURIAE*

The Association of Medical Device Reprocessors ("AMDR") is a trade organization consisting of member companies that reprocess medical devices.[1] Member companies collect, clean, repair, and re-sterilize (among other steps) discarded medical devices that can safely be reused pursuant to FDA regulations. The devices that AMDR member companies reprocess include used cardiovascular, patient monitoring and compression therapy, general surgery, and orthopedic devices, as well as opened but unused devices. AMDR member companies provide hospitals with safe and effective reprocessed devices, which lower healthcare costs and reduce the impact of medical waste on the environment.

The Food and Drug Administration (FDA) regulates companies that market medical devices in the United States, including medical device reprocessors. Before a reprocessed medical device can be marketed or sold, a third-party reprocessor must demonstrate—and the FDA must agree—that the reprocessed device is substantially equivalent in terms of safety and efficacy to the predicate

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1. No party or its counsel authored this brief in whole or in part, or contributed money to fund preparing or submitting this brief. No person or their counsel, other than the *amicus* party or its members (Stryker Sustainability Solutions, Inc., a wholly-owned subsidiary of Stryker Corporation, Medline ReNewal, Innovative Health, Vanguard AG, and Hygia Health Services), contributed money intended to fund preparing or submitting the brief. Respondent Lexmark International, Inc. filed a letter of blanket consent to *amici*. Petitioner Impression Products, Inc. granted consent to *amicus curiae* AMDR on April 13, 2016 via electronic mail, a copy of which is being submitted herewith.

originally-manufactured device. A third-party reprocessor must comply with the same requirements that apply to original equipment manufacturers, including:

- Registering all reprocessed products
- Obtaining premarket approval
- Verifying quality assurance
- Submitting adverse event reports
- Tracking devices whose failure could have serious outcomes
- Correcting or removing from the market unsafe devices
- Meeting manufacturing and labeling requirements
- Submitting the reprocessing facilities to regular inspection

The savings realized through the use of reprocessed single-use devices allows hospitals and healthcare providers to cut costs significantly and redirect those funds toward hiring more medical professionals or investing in improved patient care. Many of the hospitals with whom AMDR members work are able to save more than $1 million annually by purchasing AMDR members' reprocessed single-use devices. Smaller community hospitals report saving more than $250,000 annually.

The reprocessing services offered by AMDR members also have a drastic positive effect on the environment. AMDR members help hospitals divert millions of pounds from local landfills per year. On average, medical device reprocessing can divert over 50,000 pounds of medical waste from a single hospital each year—the equivalent weight of more than five elephants. Regulated medical waste, also known as "red bag" waste, costs up to 5-10 times more to dispose of than regular solid waste.

If, however, an original manufacturer can avoid the patent exhaustion/first sale doctrine simply by including a "single-use" restriction with the sale of a patented product, then reprocessors of such devices would risk liability for patent infringement. Consumers and businesses, including the hospitals that AMDR members serve, would be forced to purchase a new replacement device from the manufacturer and to dispose of new devices that have only been used once (which may otherwise be able to be reprocessed for multiple uses). Similarly, if foreign sales do not trigger U.S. patent exhaustion, manufacturers would be able to exact multiple payments for a single sale of a product (e.g., when it is originally sold abroad and again when imported or sold into the U.S.) or engage in more aggressive discriminatory pricing. If the Court does not reverse the decision of the Federal Circuit, healthcare costs would multiply, medical waste would pile up, and competition in the medical device market would be reduced.

AMDR, therefore, seeks to provide this Court with the perspective of an industry that the decision in this case would significantly impact. Specifically, AMDR submits this amicus curiae brief in support of Petitioner

Impression Products, Inc., to address both Questions Presented.

SUMMARY OF ARGUMENT

For over 150 years, this Court has recognized the patent exhaustion doctrine as a defining boundary of the scope of the limited monopoly afforded by a patent. Under the patent exhaustion doctrine, an authorized sale of a product substantially embodying the patented invention exhausts the patent right. Put another way, after title of a patented product passes to a purchaser through a sale authorized by the patentee, the purchaser and any downstream purchaser or user are free under patent law to use, dispose of, or repair the product.

The Federal Circuit's *en banc* decision, however, effectively eliminates the patent exhaustion doctrine. This Court had articulated the doctrine as a *limit* on a patentee's ability to control post-sale use of a patented product—regardless of a patentee's desire to control post-sale activity, patent exhaustion prevented it from doing so. The Federal Circuit, however, would make patent exhaustion an *optional* result—if a patentee does not want patent exhaustion to be triggered by a sale, it need only provide "clearly communicated" post-sale restrictions. A patentee could also use the Federal Circuit's decision to exact multiple payments from successive owners of the same product originally sold outside of the United States—contrary to the purpose of patent exhaustion.

By first reaffirming its earlier decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 702-706 (Fed. Cir. 1992), the Federal Circuit addressed the impact of

"post-sale" restrictions in a purchase agreement and whether such restrictions could avoid patent exhaustion. The Federal Circuit interpreted this Court's precedent as having addressed only post-sale restrictions that ran afoul of antitrust law. *See* Pet. App. at 53a-56a. Under that reasoning, the Federal Circuit held that other post-sale restrictions that are not *per se* illegal under antitrust law could avoid patent exhaustion. *Id.* For example, the Federal Circuit found that a sale subject to a post-sale restriction limiting a patented product to a "single-use" did not trigger patent exhaustion. *Id.* at 8a.

The Federal Circuit's holding, however, is directly contrary to this Court's repeated articulation of the patent exhaustion doctrine. As recently as *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008), this Court addressed the effect of post-sale restrictions on patent exhaustion. The Court in *Quanta* applied prior precedent without regard to antitrust law and stated a broad, bright-line test for patent exhaustion. Under *Quanta*, any sale authorized by the patent holder triggers patent exhaustion, eliminating the patent holder's ability to control post-sale activity. *Id.* at 638. The Court did not limit patent exhaustion to sales without contract restrictions or ones with restrictions that would be unlawful under antitrust law. Moreover, the Court's analysis in *Quanta* also reveals that the Federal Circuit misapprehended this Court's earlier precedent.

Similarly, in reaffirming its earlier decision in *Jazz Photo Corp. v. Int'l Trade Commission*, 264 F.3d 1094, 1102-07 (Fed. Cir. 2001), the Federal Circuit addressed the application of patent exhaustion to foreign sales of a product patented in the United States. The Federal

Circuit held that an authorized sale of a patented product outside of the United States does not exhaust U.S. patent rights, notwithstanding the opposite holding of this Court in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363-64 (2013) (addressing first sale doctrine under copyright law). This result also misapprehends this Court's earlier precedent, ignores the common law rule against restraints on disposition of goods making "no geographical distinctions" (133 S. Ct. at 1363), and illogically and incorrectly distinguishes the holding of *Kirtsaeng*. If allowed to stand, the Federal Circuit's decision would cripple the international market for reprocessed or resold goods.

ARGUMENT

I. THE FEDERAL CIRCUIT'S DECISION WILL SEVERELY IMPACT THE MARKET FOR FDA CLEARED REPROCESSED MEDICAL DEVICES

A. Patent Exclusion Power is Not Needed as a Policy Matter to Protect the Safety of Reprocessed Medical Devices

A holding that "single-use" or "use-and-return" restrictions cannot circumvent patent exhaustion is best for commerce. Reprocessed medical devices in particular are a significant industry. About 3,000 of the nation's 5,500 or so acute care hospitals have implemented reprocessing programs. AMDR's members reprocess medical devices for 14 of the 17 hospitals recognized on the *US News & World Report* "Honor Roll," including Mayo Clinic, Cleveland Clinic, Johns Hopkins, Massachusetts General, Stanford Healthcare and many others. Analysts,

such as Transparency Market Research, estimate that the total savings to all hospitals from reprocessing is upwards of $500 million per year. The Healthier Hospitals Initiative, an alliance of hospitals and health systems that seeks to boost sustainability in healthcare, released a report in April 2013 finding that 185 hospitals saved $32 million in 2012 by reprocessing single-use medical devices. And Tenet Healthcare Corp. reported saving $9.4 million and diverting more than 1.5 million pounds of medical waste from landfills in 2012. For that reason, customers of AMDR's members have described medical device reprocessing as "the right thing to do, both environmentally and economically." *See* http://www.beckershospitalreview.com/supply-chain/the-ins-and-outs-of-third-party-reprocessing.html (last visited April 15, 2016). The American Nurses Association, Association of Peri-Operative Nurses, Healthcare Without Harm, and Practice Greenhealth have also all written in support of the environmental benefits of single-use device reprocessing. *See* http://www.amdr.org/environmental/ (last visited April 15, 2016).

Even the FDA has recognized the significant benefits of reprocessed medical devices. The FDA appreciates that "[r]eprocessing and reusing single-use devices (SUDs) can save costs and reduce medical waste." FDA Device Advice: Comprehensive Regulatory Assistance, Reprocessing of Single-Use Devices, http://www.fda.gov/MedicalDevices/DeviceRegulationandGuidance/ReprocessingofSingle-Use Devices/ (last visited April 15, 2016). Through March 2016 the FDA has cleared approximately 252 single use medical devices for reprocessing.

The FDA ensures that "before medical devices can be reprocessed and reused, a third-party or hospital reprocessor must comply with the same requirements that apply to original equipment manufacturers." *Id.* The FDA's former Director of the Center for Devices and Radiological Health has therefore recognized that the "FDA believes that reprocessed SUDs [single-use devices] that meet FDA's regulatory requirements are as safe and effective as a new device." *See* Testimony of Dr. Daniel Schultz, at http://www.fda.gov/Medical Devices Device Regulation and Guidance/ReprocessingofSingle-UseDevices/ucm121067.htm (last visited April 15, 2016) (emphasis added).

In fact, the "pre-market submission of data to the Agency [for clearance of a reprocessed device] . . . exceeded the requirements for OEMs." *Id.* (emphasis added). That is because in 2002, Congress enacted the Medical Device User Fee and Modernization Act ("MDUFMA"), which provided in § 302 additional specific regulatory requirements for reprocessed single-use devices, including that a reprocessor must:

- "prominently and conspicuously" label the device as reprocessed;

- allow the FDA to review devices previously exempted from FDA 510(k) clearance; and

- submit a new, additional category of premarket submission—the premarket report—for any reprocessed Class II device.

Moreover, there is nothing inherently unsafe in reprocessing a device that an original manufacturer chose to designate as single-use-only. The decision to put a "single use" label on a device's packaging is made by the original manufacturer—not the FDA. A manufacturer typically makes that label designation just to avoid having to submit evidence supporting re-use to the FDA. *See* U.S. Government Accountability Office, GAO-08-147, *Reprocessed Single-Use Medical Devices: FDA Oversight Has Increased, and Available Information Does Not Indicate that Use Presents an Elevated Health Risk* (Jan. 2008), available at http://www.gao.gov/products/GAO-08-147 (last visited April 15, 2016).

The Federal Circuit majority nevertheless found as a policy matter that a patentee should—even after an authorized sale that relinquishes title to a product—be able to use patent law to control the conditions under which that product is later reprocessed, recycled, or reused. Pet. App. at 61a. Without citing to any factual evidence, the majority concluded that post-sale restrictions allegedly make sense because, for example, a medical device supplier may have "reason to believe that reuse, when not under its own control, carries a significant risk of poor or even medically harmful performance, to the detriment of its customers and its own reputation." *Id.* at 60a-61a. According to the Federal Circuit's unsupported speculation "[s]uch interests are hardly unrelated to the interests protected by the patent law—the interests both of those who benefit from inventions and of those who make risky investments to arrive at and commercialize inventions." *Id.* at 61a.

The Federal Circuit's argument, however, overlooks all of the foregoing discussed consumer, economic, and environmental benefits of reprocessed devices. And it overlooks the heavily stringent FDA oversight in place for those devices. Reprocessed medical devices are required by law to be just as safe and effective as the original device. *See supra* at p. 8-9.

Moreover, this Court long ago resolved the proper policy balance between a patent holder's interest in using patent law to control the use of its invention versus the public's interest in using their purchased property as they see fit. That is the very origin of the patent exhaustion doctrine. *See, e.g., Bloomer v. McQuewan*, 55 U.S. 539, 14 How. 539, 549, 14 L. Ed. 532 (1853) ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly."); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518 (1917) (observing that "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is 'to promote the progress of science and useful arts'"). This Court has explained the basis for the doctrine as follows: "[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article"; once that "purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *United States v. Univis Lens Co.*, 316 U.S. 241, 249-50 (1942). Patent law is not a tool for exacting a "toll" for every use of a patented product or for regulating the use of the patented product.

B. The Federal Circuit's "Conditional Sale" Exception to Patent Exhaustion Could Potentially Eliminate Secondary Markets in Patented Goods

The Federal Circuit's decision below effectively guts the patent exhaustion doctrine. A patentee could potentially exclude from exhaustion any sales of a patented product simply by including a "clearly communicated" post-sale restriction in the purchase agreement (or potentially even just in a shrink-wrap agreement on the packaging). The patentee would be able to threaten patent infringement liability against all subsequent purchasers down the chain to either prohibit reuse/resale entirely or to extract a second, third, or fourth "license" fee. These very concerns led to the Court's holding in *Quanta*. *See Quanta*, 553 U.S. 617 at 630 ("This case illustrates the danger of allowing such an end-run around exhaustion.") (emphasis added).

The Federal Circuit brushed off any concerns in this regard, arguing that this result has purportedly not come to pass since the decision in *Mallinckrodt*. *See* Pet. App. at 60a. Most observers, however, had believed that *Quanta* overruled *Mallinckrodt*. *See infra* at p. 17 (discussing articles and district court decisions concluding that *Mallinckrodt* was not good law). Moreover, even before *Quanta*, it was believed that the three-person panel decision in *Mallinckrodt* was wrongly decided, as it was contrary to earlier precedent of this Court. *See, e.g.*, Richard H. Stern, *The Unobserved Demise of the Exhaustion Doctrine in US Patent Law*, 15 Eur. Intel. Prop. Rev. 460-65 (1993) ("The flaws in *Mallinckrodt's* legal analysis appear overwhelming. . . . Because

Mallinckrodt's precedential support is negligible, its viability as a precedent may be limited. Subsequent panel decisions may distinguish it or limit it to its facts to the point of irrelevance.") (emphasis added). Should this Court decline to reverse the Federal Circuit's sweeping *en banc* decision, however, post-sale restrictions will undoubtedly become far more common. Secondary market goods for products such as medical devices, cell phones, home electronics, automotive parts, and others may largely disappear.

C. The Federal Circuit's Ruling That Foreign Sales Do Not Result in Patent Exhaustion Could Disrupt International Secondary Markets

The medical device reprocessing industry—as with many other secondary markets—is also a world-wide industry. The Federal Circuit's ruling that foreign sales do not result in patent exhaustion would significantly disrupt that market and harm consumers. At the same time, it would only benefit patent holders by allowing them to demand multiple payments on a single tangible good after it is sold or to enforce country-by-country price discrimination.

For example, a medical device reprocessor could face allegations of patent infringement if it were to bring foreign-sold medical devices into the U.S. to reprocess those devices in a U.S. reprocessing facility. Even if the U.S. reprocessor intends to simply take devices from the original authorized purchaser, import them into the U.S. to reprocess them as a service for the owner (without a sale or title changing hands), and send them back to the

original purchaser, either the U.S.-based reprocessor or the foreign purchaser would have to import them into the U.S. *See* 35 U.S.C. § 271 (importing a patented good can be an act of infringement). Therefore, such a U.S.-based reprocessor—who otherwise performs mere reprocessing-for-hire services, would now have to trace the patent rights of every component of that product. Or, the U.S.-based reprocessor would have to set up duplicative and wasteful reprocessing facilities around the globe.

The Federal Circuit's decision may also result in higher costs for medical devices in the U.S. A U.S.-based reprocessor who engages in the business of buying lower-cost medical devices overseas for resale in the U.S. would be exposed to increased risk of patent infringement allegations. Meanwhile, the patentee could potentially charge a lower price outside of the U.S. for a device, but a much higher price for sales in the U.S. A U.S. hospital or other consumer would be unable to buy the products at a lower price outside of the U.S. and import them for use.

D. The Federal Circuit's Decision Results in Untenable Uncertainties for Third Party Good Faith Purchasers of Products

The Federal Circuit majority's decision also leaves reprocessing companies guessing as to their rights. The Federal Circuit's decisions to affirm *Mallinckrodt* and *Jazz Photo* raises myriad practical barriers.

First, a downstream purchaser that may have no way of verifying the details of the original sale could nevertheless be subject to the "conditions" of that sale, or else be potentially liable as an infringer. The Federal

Circuit majority decision partly recognized this danger and added a requirement of "notice" of any "conditional sales" to "downstream buyers." Pet. App. at p. 62a. The majority decision also requires that the post-sale restriction be "clearly communicated to the purchaser." Pet. App. at 8a. The Federal Circuit, however, provided no guidance as to what constitutes "notice" or a "clearly communicated" restriction. Nor did the Federal Circuit provide any legal reasoning for why the heavy remedy of patent infringement should be dependent on whether or not a downstream purchaser *knows* of a post-sale restriction in an original sales contract. And the Federal Circuit did not address what kind of evidence would be sufficient to prove such knowledge.

For example, the Federal Circuit has previously held that only post-sale restrictions in a *contract* can constitute "conditions" on the sale that would avoid patent exhaustion. *See Jazz Photo Corp. v. ITC*, 264 F.3d 1094, 1108 (Fed. Cir. 2001) ("We do not discern an enforceable restriction on the reuse of these cameras based on the package statements [stating that the cameras were for single-use]. These statements are instructions and warnings of risk, not mutual promises or a condition placed upon the sale.") Mere "instructions and warnings" on *packaging* cannot themselves constitute a *contract* and thus a condition on the sale. *See id.* If warnings on the product or product packaging are insufficient, however, it is unknown how a downstream purchaser would know of the existence of any "conditions" on the original sale contract. Moreover, neither *Jazz Photo* nor the Federal Circuit decision below addressed the impact of restrictions in a "shrink-wrap" agreement on the product packaging, and how a downstream purchaser would have notice of such an agreement if the original packaging is discarded.

Similarly, the Federal Circuit's ruling that patent exhaustion does not apply to goods that a U.S. patentee sells abroad will raise unworkable uncertainties. A downstream purchaser may often have no way of knowing whether the first authorized sale of a product occurred in the U.S. or not. Under the Federal Circuit's decision, the fact that a product was first sold abroad does not need to be "clearly communicated" to a downstream purchaser in order to avoid patent exhaustion. *See* Pet. App. at 63a-103a. Further, because a downstream purchaser of a foreign product would no longer be able to rely on patent exhaustion, it would now have to engage in costly examination of whether the goods are patented or not.

The bright-line patent exhaustion doctrine of *Quanta* and the bright-line rule of *Kirtsaeng* against geographical distinctions on restraints against alienation remove all of this uncertainty. They strike the proper balance between patentee and purchaser rights and relegate contract disputes to their proper place.[2]

2. This Court in *Quanta* recognized that post-sale restrictions are something to be enforced, if at all, through contract law, rather than patent law. *See Quanta*, 553 U.S. at 636, fn. 7 ("We note that the authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights.")

II. THE FEDERAL CIRCUIT'S "CONDITIONAL SALE" DOCTRINE IS CONTRARY TO THIS COURT'S 150-YEAR-OLD PATENT EXHAUSTION DOCTRINE

A. This Court Has Uniformly Held that Any "Authorized" Sale, Regardless of Tangential Post-Sale Restrictions, Triggers Patent Exhaustion

This Court's patent exhaustion standard is both broad and simple: "[T]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (U.S. 2008). Once the patentee parts with title to the product through an authorized sale, it relinquishes all ability to control post-sale use or resale.

The test in *Quanta* does not depend on the relationship of the parties or whether there were any tangential covenants, warranties, or ongoing duties in a contract. Nor does it depend on antitrust law or the legality of any post-sale restrictions. Rather, the Court recognized that a patentee (LGE) had authorized a manufacturer (Intel) to manufacture and sell patented products. *Id.* at 636. The Court found what the patentee argued were "conditions" on the use of the product (i.e., the manufacturer was required to notify any purchasers that they could not combine the patented products with non-Intel components) amounted to mere collateral agreements that did not render the sales by Intel "unauthorized." *Id.* When the manufacturer sold the products to a third party (Quanta), "Intel's authorized sale to Quanta thus took its products

outside the scope of the patent monopoly" and as a result, the patentee could "no longer assert its patent rights against Quanta." *Id.* at 638 (emphasis added).

Accordingly, most commentators agreed that *Quanta* put to rest any "conditional sale" exception to patent exhaustion. *See* Alfred C. Server and William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 Hastings L.J. 561, 596 (Apr. 2013) (stating that "a majority of commentators" have adopted the view that *Quanta* overturned the conditional sales doctrine); Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 Ala. L. Rev. 103, 111 & n.35 (2008) (claiming *Quanta* overruled *Mallinckrodt*); Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, IDEA—The Intellectual Property Law Review, Vol. 49, No. 4 (June 7, 2009) at 529-30 (same); *see also Ergowerx Int'l, LLC v. Maxell Corp. of Am.*, 18 F. Supp. 3d 430 (S.D.N.Y. 2014) (same); *Intergraph Hardware Techs. Co. v. Dell, Inc.*, 2009 U.S. WL 166559, *3 (E.D. Tex. Jan. 16, 2009) (same); *Static Control Components, Inc. v. Lexmark Int'l*, Inc., 615 F. Supp. 2d 575, 585 (E.D. Ky. 2009) (same).

III. THE FEDERAL CIRCUIT'S RATIONALE FOR ITS "CONDITIONAL SALE" EXCEPTION TO PATENT EXHAUSTION IS FLAWED

Notwithstanding the broad, clear patent exhaustion rule articulated by this Court, the Federal Circuit majority nevertheless found that its "conditional sale" exception to patent exhaustion was warranted. Its reasoning, however, misapprehends this Court's precedent, the patent statute, and the purpose of patent exhaustion.

First, the Federal Circuit incorrectly concluded that *Quanta*, as well as the earlier decisions in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917) and *United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942), were distinguishable—that the broad patent exhaustion rule in those decisions was mere dicta because there was either no restriction imposed or the restriction would otherwise have violated the antitrust laws. *See* Pet. App. at 54a. But as the dissent by Judges Dyk and Hughes explained, "the cases impose no such qualification on the rule announced." *Id.* at 118a.

For example, the Federal Circuit attempted to distinguish *Quanta* by arguing that it "did not involve a patentee's sale at all" or one "subject to a restriction." *Id.* at 30a. But patent exhaustion applies not just to patentee sales but also to authorized licensee sales. *See Quanta*, 533 at 636-37 (authorized sale from licensee Intel exhausted the patent). And the sales at issue in *Quanta* did come with a "restriction"—Intel (the licensee/seller) was required by LGE (the patentee) to notify purchasers (including Quanta) that they were not allowed to combine the patented products with non-Intel components. *See Quanta*, 533 at 624-25. The Court simply held that this restriction did not override the undeniable fact that the sale itself was still "authorized" by LGE. *See id.*

The Federal Circuit similarly incorrectly interpreted *Motion Picture Patents* as only establishing that unlawful post-sale restrictions (e.g., price fixing) did not circumvent patent exhaustion. *See* Pet. App. at 53a-54a. The Court in *Motion Picture Patents*, however, put no such limitation on its holding. The Court simply held that "the right to vend is exhausted by a single, unconditional sale, the article

sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it." *Motion Picture Patents*, 243 U.S. at 516, 518. In doing so, *Motion Picture Patents* overruled the entirety of this Court's short-lived decision in *A.B. Dick* that had broadly allowed post-sale restrictions—not just as to "unlawful" restrictions. *See id.* at 518, overruling *Henry v. A.B. Dick Co.*, 224 U.S. 1, 24-25 (1912).

Univis likewise did not turn on whether a post-sale restriction is legal under antitrust laws. In *Univis*, the Court broadly found that where a patent holder has sold a patented product he has "thus parted with his right to assert the patent monopoly with respect to it and is no longer free to control the price at which it may be sold . . . ." *Id.* at 251. In arriving at that conclusion, *Univis* started its analysis with patent law, stating that "before considering whether the defendants' conduct violated antitrust law, the Court first asked whether that conduct was excluded by the patent monopoly from the operation of the Sherman Act." *Univis*, 316 U.S. at 244. To answer that question, the Court turned to patent exhaustion. *Id.* In other words, *Univis* found that the post-sale restrictions were also illegal under antitrust law only after concluding that patent exhaustion first voided them. That is why *Quanta*—which did not turn on or discuss any antitrust issues—recognized that "*Univis* governs." *Quanta*, 553 U.S. at 617.

Second, the Federal Circuit majority incorrectly reasoned that without a "conditional sale" exception to patent exhaustion, there would be two different patent exhaustion tests for (a) "a practicing-entity patentee

that makes and sells its own product" versus (b) a "non-practicing-entity that licenses others to make and sell the product." Pet. App. at 26a. But the Federal Circuit misunderstood the issue. The distinction that exists under this Court's exhaustion test is simply between authorized and unauthorized sales.

The *Quanta* test itself reflects this distinction. *Quanta* requires an "authorized sale" to exhaust the patent. *Quanta*, 553 U.S. at 638. Any sales directly made by the patentee are of course logically "authorized" by the patentee. Any sales by an infringing, unrelated third party are logically "unauthorized" by the patentee. But a patentee can also grant a license to another company to make and sell the patented product. If it wishes, the patentee can give the manufacturer-licensee permission to sell the product only within a certain geographic area or field of use. The patentee has not sold the product to the manufacturer-licensee and thus there is no "authorized sale" between them to trigger patent exhaustion. Thereafter, unauthorized sales by the manufacturer-licensee in violation of the agreement (e.g., sales outside of the permitted area or field of use), are unlicensed and therefore infringing. That was the exact scenario in *General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124, 127 (1938). If, however, the manufacturer-licensee makes an authorized sale to a customer (e.g., the manufacturer licensee sells within the scope of its license), patent exhaustion is then triggered. *See Quanta*, 553 U.S. at 625. Any subsequent purchaser after that authorized first sale is free to use and resell the product as it sees fit (even outside the manufacturer-licensee's field of use), just as if it purchased the product from the patentee itself. In other words, patent exhaustion does not treat sales

by a licensee/manufacturer differently from those by a patentee—it treats authorized and unauthorized sales differently. *See* Pet. App. at 121a-123a.

Third, the Federal Circuit majority incorrectly argued that this Court's own past use of the term "unconditional sale" supported a "conditional sale" exception to patent exhaustion. *See* Pet. App. at 32a, citing *Quanta*, 553 U.S. at 626, quoting *Motion Picture Patents*, 243 U.S. at 516. But the Federal Circuit misapprehended the way that this Court has used the term "unconditional sale." Traditionally, a "conditional sale" of property was one in which title did not pass until a condition-precedent had occurred. *See* Pet. App. at 115a, Dissenting Opinion citing *Harkness v. Russell*, 118 U.S. 663, 665 (1886) (a "conditional sale" is a security device, i.e., an "agreement to sell upon a condition to be performed"). In the post-sale restrictions at issue here, there was no "condition" that had to occur before title to the patented product passed to the purchaser. The single-use restrictions here are more properly characterized as tangential contract provisions (no different from payment, warranty, or other similar provisions) rather than a "conditional sale."

Fourth, the Federal Circuit reasoned that because the Court in *Quanta* did not expressly overrule *Mallinckrodt's* "conditional sale" exception to patent exhaustion, it would be "unwarranted" to believe that the Court disapproved of it. Pet. App. at 32a. That logic, however, is backwards. As the Federal Circuit acknowledged, the "evident explanation is that, at a minimum, no question was presented for decision" in *Quanta* regarding overturning *Mallinckrodt*. *Id. See also* Pet. App. at 114a, fn. 3. In fact, at oral argument, LGE's counsel was asked: "Q: Am

I correct in understanding that you do not defend the *Mallinckroat* decision? A: I do not defend the *Mallinckrodt* decision, Justice Stevens, and clearly I don't believe I have to." Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. LG Electronics, Inc.*, IDEA—The Intellectual Property Law Review, Vol. 49, No. 4 (June 7, 2009) at 30.

Fifth, the Federal Circuit's reliance on 35 U.S.C. §§ 271(a) and 154(a)(1) as allegedly allowing a patent holder to exclude any use of a patented invention "without authority" is misplaced. Such an interpretation is contrary to the very concept of patent exhaustion. For example, in *Motion Picture Patents* and *Quanta*, the patentee had not given "authority" for the disputed post-sale use of the patented products. *See Motion Pictures Patents*, 243 U.S. at 514-15, *Quanta*, 553 U.S. at 638. Nevertheless, exhaustion was trigged because there was an "authorized" first sale—that sale ended the patentee's ability to exert any further "authority" over post-sale use. *See id.*

IV. THE FEDERAL CIRCUIT INCORRECTLY HELD THAT FOREIGN SALES DO NOT TRIGGER PATENT EXHAUSTION

The Federal Circuit also incorrectly decided whether non-U.S. sales of a patented product exhaust the U.S. patent rights. Namely, the Federal Circuit *en banc* upheld the earlier panel decision in *Jazz Photo*, 264 F.3d at 1102-07 that such sales do not trigger patent exhaustion. This decision is contrary to *Kirtsaeng*, 133 S. Ct. at 1363-64 and the common law articulated therein.

In *Kirtsaeng*, the Court concluded that an authorized sale of a copyrighted book outside the U.S. did give rise to copyright exhaustion. *See id.* at 1363-64. Although the Court there addressed copyright exhaustion based on a foreign sale, rather than patent exhaustion, it analyzed the common law regarding restraints on property generally. *See Kirstaeng*, 133 S. Ct. at 1363. The Court treated the copyright first sale doctrine as a "common-law doctrine with an impeccable historical pedigree" rather than something unique to the copyright statute. *Id.* The Court broadly recognized that "[a] law that permits a copyright holder to control the resale or other disposition of a chattel once sold" is "against Trade and Traffic, and bargaining and contracting." *Id.* The Court also recognized (1) "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods" and (2) that a broad first sale doctrine frees courts from "the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods." *Id.* at 1363-64. The Court then concluded that "[t]he common-law doctrine makes no geographical distinctions" and that a "straightforward application" of the rule "would not preclude the 'first sale' defense from applying to authorized copies made overseas." *Id.* at 1363-64.

Each of these rationales applies equally to patent exhaustion. International patent exhaustion—just like the international copyright first sale doctrine—will promote the same consumer interests and avoid the same administrative burdens. The Court has previously noted parallelisms between the property interests in a copyright versus a patent. *See, e.g., Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (recognizing a "historic kinship between patent law and copyright law").

It was only after the Court in *Kirstaeng* discussed general common law property principles that it also analyzed whether the copyright statute (§109(a)) limited the common law rule disfavoring restraints on alienation of goods. *See Kirstaeng*, 133 S. Ct. at 1364. It found that although the copyright statute did address first sale, it did not mandate against exhaustion based on international sales. *See id.* Because the patent statute has no applicable statutory provision that needs analysis, it also does not limit the broad common law rule disfavoring restraints on alienation.

Moreover, *Boesch v. Graff*, 133 U.S. 697, 701-02 (U.S. 1890) does not support the Federal Circuit majority's position that international sales do not exhaust a patent. *Boesch* did not broadly hold that foreign sales cannot exhaust a U.S. patent. *See id.* at 701-02. Rather, in *Boesch*, there was no foreign sale that was "authorized" by the U.S. patentee (e.g., a sale from the U.S. patentee or from an entity licensed by the U.S. patentee)—rather, the sale in *Boesch* was from a third party who was only able to sell in Germany, under Germany patent law, because it had been doing so prior to the German patent application for the same technology. *Id.* at 701-02. *Boesch* recognized that the party attempting to import the patented product into the U.S. was doing so "without the license or consent of the owners of the United States patent." *Id.* at 702.

V. CONCLUSION

For the reasons discussed, this Court should grant *certiorari* to address the above Questions Presented.

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